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SUBJECT: TAIWAN APPROVES LIMITED CHIP TESTING INVESTMENT IN CHINA

REF: 06 TAIPEI 04164

¶1. (SBU) Summary. On June 28, Taiwan's Vice Minister of Economic Affairs chaired a joint committee meeting to give final approval to the applications of four of Taiwan's leading semiconductor packaging and testing firms to invest in China. The four companies' planned investment totals USD 99.6 million, and their stock prices have risen recently on speculation that investment approval was imminent. Two of the four firms could begin operations in China by the end of this year, with the other two anticipating starting production in the third quarter of 2008. These cases have received considerable media attention as a gauge of how the Ministry of Economic Affairs (MOEA) may in future use 'active management' mechanisms to facilitate further expansion of high-tech investment in China. It is too early to know whether other restricted industries, principally up-stream petrochemicals and telecommunications, will be encouraged by these approvals to lobby the MOEA's Investment Commission to use similar means to open up investment opportunities in those sectors. End Summary.

FOUR LEADING TESTING/PACKAGING COMPANIES TO LAND IN CHINA SOON

¶2. (SBU) In April 2006, Taiwan's MOEA announced the removal of simple semiconductor packaging and testing from a negative mainland investment list, an announcement that received considerable attention at the time. Subsequently, Advanced Semiconductor Engineering (ASE), in a joint venture with Suzhou-based NXP Semiconductors, as well as Greatek Electronics, Inc. (Greatek), Walton Advanced Engineering, Inc. (Walton), and Siliconware Precision Industries Co. (SPIC) all submitted applications to invest in China. The investments would be limited to simple integrated circuits packaging and testing. On June 28, MOEA conducted a final review of the applications, and subsequently approved all four. ASE (the world's largest chip packager, which purchased 60 percent of NXP) plans to invest USD 21.6 million in China, while Greatek, Walton and SPIC have stated they will invest USD 30 million, USD 18 million, and USD 30 million, respectively. ASE and SPIC both already have investments in China and expect to begin mainland packaging/testing operations by the end of this year. Greatek and Walton could start production by the third quarter of 2008.

FIRMS PROMISE MORE INVESTMENT AND JOBS IN TAIWAN

¶3. (SBU) As a requirement for approval of the investments (see para. 4), the firms must provide estimates of the amounts they will invest in Taiwan and the corresponding number of jobs created. Reportedly, Siliconware plans to invest more than NTD 20 billion (approximately USD 606 million) in Taiwan and create 6,000 jobs in 3 years, Walton will increase domestic investment by NTD 10 billion (approximately USD 303 million), creating 100 jobs; and ASE plans for an additional NTD 40 billion (approx. USD 1.2 billion) of investment in Taiwan. In total, the four companies plan to invest NTD 75 billion.

#### ACTIVE MANAGEMENT AS A MEANS TO REGULATE INVESTMENT

¶4. (U) On December 14, 2006, MOEA announced a policy review regarding China-bound investment projects that exceed USD 100 million (or USD 200 million cumulative value or USD 60 million for re-investment projects) or are in technologically strategic areas, such as construction of wafer foundries, thin-film-transistor liquid crystal display (TFT-LCD) panel manufacturing, or chip testing facilities. The resulting 'active management' guidance related to such high-tech investment requires applicants to provide information regarding 'counter-balancing' investment in Taiwan, as well as the company's global strategy, and the impact on domestic employment of its planned investment (reftel). In addition, the measures require applicants to allow the government to send lawyers, accountants, or other experts to check Taiwan enterprises in China when necessary.

#### EVERYBODY IS WATCHING

¶5. (SBU) Considerable media attention has been focused on the  
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fate of these four applications, especially since Economic Vice Minister Shih Yen-Shiang at a press conference on June 25 confirmed the applications were under final review. Previously the review process had been quite low-profile, and contacts at ASE and SPIC expressed their surprise that MOEA would make such a public disclosure. However, an Investment Commission source explained the Vice Minister was merely stating the facts in the face of media speculation. Despite the apparent interest of MOEA in quelling rumors, the announcement set off a spate of stock speculation the same day, as investors took the news as an indicator of further liberalization of Taiwan investment in China's chip industry. ASE's stock gained 1.48 percent, Greatek's 3.39 percent and Walton's 5.09 percent (although SPIC, Taiwan's second largest chip testing/packaging firm, declined by 1.79 percent). Market analysts characterized the expected approval of the four investment applications as a catalyst for capital to flow into chip testing and packaging stocks.

#### COMMENT

¶6. (SBU) Taiwan's 'active management' mechanisms of high-tech investment in industries such as small LCD panels and integrated circuit testing and packaging appear to have met some of the expectations of industry in liberalizing mainland investment. The procedures are designed to give Taiwan officials a means to protect Taiwan's economic development by ensuring continued domestic investment and nominal job creation. Whether or not the 'counter-balancing' investment requirements will actually result in more jobs or real economic growth is unknowable at present. However, the high degree of market and media attention accorded these four investment applications suggest that industry anticipates MOEA will continue to open up additional opportunities for Taiwan investment in China. Currently, much of the investment there is not new but rather expansion of existing projects or re-investment of profits earned in China. Therefore, any channels for new investment will find many takers. There is wide-spread speculation that the approval of these chip testing/packaging projects could stimulate other industries, such as up-stream petrochemicals and

telecommunications equipment manufacturing, to seek a similar  
path to invest in China.  
YOUNG